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ABSTRACT

The United States spends more than $300 billion a year on education at the elementary, secondary, and postsecondary levels. State, local, and private expenditures account for over 90 percent of the spending, and agencies of the federal government contribute less than 10 percent. This report highlights the U.S. Department of Education's current mission, priorities, and programs. The report also includes reporting requirements on financial management: the department's unaudited financial statements, the overall condition of management controls, a progress report on audit followup, and a status report on the timeliness of the department's vendor payments. In fiscal year 1996, the department administered $30.6 billion in educational funding that was distributed to programs supporting students of all ages. This represents only about 2 percent of the total federal budget. A table shows how each major education program was funded in fiscal year 1996. The report contains a profile of the Department of Education, program highlights and performance, financial highlights, financial improvement initiatives, highlights of reporting requirements, and unaudited financial statements and accompanying notes. An evaluation form for this report is included. (LMI)

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Fiscal Year 1996

Prepared by the Office of the Chief Financial Officer

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
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U.S. Department of Education
Fiscal Year 1996
Annual Accountability Report

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UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

Dear Customers and Colleagues:

In this age of information and technology, education must be a priority for the American people if we are to compete in the international economy and keep our democracy vibrant in a diverse nation. During Fiscal Year 1996, the Department committed resources to a school improvement agenda of raising standards, improving teaching, making schools safer and drug-free, preparing students for school-to-career transitions, providing more choice in public education, and expanding access to technology in every classroom in America.

We also continued to improve the quality of service we provide to our customers. We have two toll-free phone lines: 1-800-USA-LEARN provides information and referrals to approximately 5,000 callers each week, while 1-800-4FED-AID assists over 3 million callers a year with student aid information. We established the Department's World Wide Web site which provides information directly to numerous customers, averaging 1.6 million requests each month. We reduced the burden of regulation and paperwork by eliminating 39 percent and reinventing 55 percent of our regulations -- a total of 2,031 pages. We also cut more than 10 percent of the information collection requirements that were in place just a year ago. This translates into 5.4 million fewer hours for schools, students, parents, states and other customers to complete required forms to get student loans, apply for education grants, or manage student aid systems.

The national default rate in the Federal Family Education Loan Program has once again dropped, from 22.4 percent for the fiscal year 1990 cohort to 10.7 percent for the fiscal year 1994 cohort (representing borrowers scheduled to begin loan payments in fiscal year 1994 who defaulted either in that year or in fiscal year 1995). This decline in default rates is coupled with an equally impressive rise in defaulted loan collections, which for fiscal year 1996 totaled over $2 billion. These two key factors are the result of the Department's efforts to improve accountability.

Education outcomes have been showing promising trends, and there is every reason to be enthusiastic about the future. I look forward to continuing to work with states and local communities to serve the nation's learners.

Yours sincerely,

Dick Riley

Richard W. Riley

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-0100

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

Dear Customers and Colleagues:

The Department of Education has answered the challenge of providing comprehensive financial and program information in a concise and clear form to taxpayers and others in preparing the fiscal year 1996 Annual Accountability Report. The Department's second Annual Accountability Report highlights our current mission, priorities and progress. This report also includes reporting requirements on financial management: the Departmentwide unaudited financial statements, overall condition of management controls, progress report on audit follow-up, and status report on the timeliness of the Department's vendor payments.

As required by the Government Management Reform Act, we are currently having our second Departmentwide audit conducted by independent contractors. The audit reports will be available in the next several months and can be obtained by completing the mail-in card in the back of this report.

Several financial management improvement projects are currently underway in response to the results of our first Departmentwide audit. Some of these efforts involve the Department working with the student loan program participants to ensure the integrity of the student loan data. The Department has guaranteed student loans outstanding of approximately $92 billion and direct loans outstanding of over $12 billion at September 30, 1996. For the past four years, we have received disclaimers of audit opinions because of our auditor's concerns with the integrity of the data supporting our cost estimates for the Federal Family Education Loan Program. Much of this data is received by the Department from the student loan participants. We believe that our current initiatives will assure the public that the Department's estimates of the costs of these programs are reasonable. We will not be satisfied with financial management and program accountability in this Department until we receive consistently unqualified audit opinions.

I am pleased to present this report to the taxpayers in the spirit of public disclosure and accountability that is important to us at the Department of Education.

Mitchell L. Laine
Acting Chief Financial Officer

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-4300

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Profile of the Department of Education

The United States spends more than $500 billion a year on education at the elementary, secondary and postsecondary levels. State, local and private expenditures account for over 90 percent of this spending, and agencies of the federal government contribute less than 10 percent. While education is a national priority, it is clear from these percentages that education is a state responsibility under local control. The Department of Education exists to facilitate and assist state and local governments in meeting the education needs of their communities.

In an exit poll following the 1996 election, education was rated as one of the top four concerns of the voting public. Given the dramatic developments which took place at the Department of Education during fiscal year 1996, the Department is better able to address this concern than ever before. Fiscal year 1996 was a year of continued commitment to a positive school improvement agenda of raising standards, improving teaching, making schools safer and drug-free, preparing students for school-to-career transitions, providing more choice in public education and expanding access to technology in every classroom in America. It was also a year of improvements in the delivery of student aid and in other services to our customers.

Education is and always will be a critical part of our Nation's success. That is why the Department of Education is working hard to provide the best support possible for students of all ages and abilities, and to educate America into the 21st Century.

In fiscal year 1996, the Department administered $30.6 billion in education funding that was distributed to programs supporting students of all ages. This represents only about 2 percent of the total federal budget. The following table shows how each major education program was funded in fiscal year 1996.

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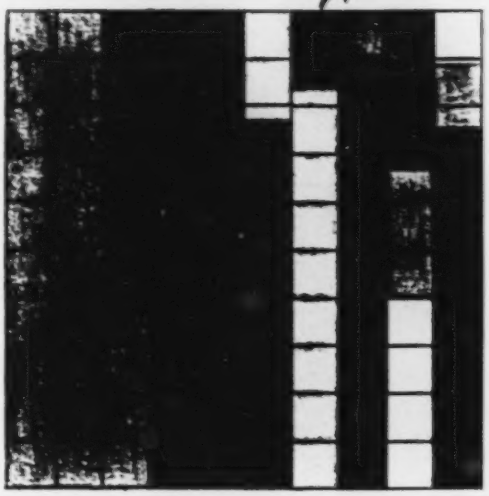
Department Programs Support America's Priorities For Learning 1996 Budget



Elementary and Secondary - Title 1	$7,228	23.6%
Pell Grants	$5,737	18.7%
Federal Family Education Loans	$4,729	15.4%
Special Education	$3,245	10.6%
Rehabilitation Services	$2,456	8.0%
Vocational and Adult Education	$1,347	4.4%
Campus Based	$1,200	3.9%
Higher Education	$ 837	2.7%
Impact Aid	$ 693	2.3%
Direct Student Loans	$ 679	2.2%
Professional Development	$ 550	1.8%
Safe and Drug Free Schools	$ 466	1.5%
Goals 2000	$ 350	1.2%
Research, Statistics and Improvement	$ 351	1.2%
School to Work	$ 180	.6%
Other Programs	$ 235	.8%
Program Administration	$ 327	1.1%
Total Fiscal Year 1996 Budget	$30,610	100.00%

This chart was prepared by Quan Au, a seventh grader at Luther Jackson Middle School in Falls Church, Virginia.

Note: Program budgets represent funding Congress appropriated and will not necessarily match the expenses reported in the financial statements, since a program may not spend all funds during the year of appropriation.

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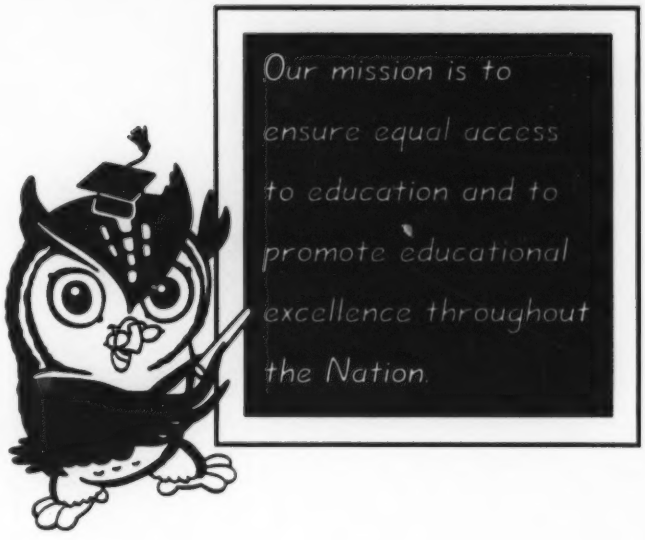
The Department's Strategic Plan and Mission

During fiscal year 1996, the Department updated its comprehensive strategic plan. The plan continues to reflect the Department's efforts to restructure the federal role in education, focus on performance, reduce and streamline the number of programs and improve internal Department management. By including measures of performance which reach all levels and divisions of the Department, the strategic plan holds the Department and its employees accountable for results.



The Department's mission is **"to ensure equal access to education and to promote educational excellence throughout the Nation."** There are four strategic priorities that support the mission and numerous performance indicators to assess the Department's progress on each priority. The performance indicators represent pre-defined objectives and measure results over time. These yardsticks measure the Department's performance in relation to defined objectives.

Priority #1: Help All Students Reach Challenging Academic Standards So That They Are Prepared for Responsible Citizenship, Further Learning and Productive Employment

A major part of the Department's budget goes to helping state and local governments support elementary and secondary education. For fiscal year 1996, this assistance was primarily through grants targeted at high priority programs accounting for almost $17 billion, or over 54 percent, of the Department's budget—a $3 billion increase over the fiscal year 1995 budget. This priority is designed to help all students and learners meet challenges and prepare for productive employment. The major programs supporting this priority are described below:

Title I of the Elementary and Secondary Education Act directs over $7 billion to strengthen teaching of basic and advanced skills to approximately 7 million children attending the highest poverty schools in all 50 states. Title I places the focus on teaching and learning rather than rules and requirements. It is expected that the students who receive these services—when measured by the same state assessments that measure all

students—will make progress toward the same challenging academic standards. This contrasts with low expectations, remediation and separate testing that Title I students previously received. Title I also focuses on school-wide reforms instead of isolated programs, and targets more funds on high-poverty districts and schools.

Special Education programs assist over 5 million children with disabilities, from birth through age 21, in meeting their developmental and educational needs. Consistent with the goal of improved educational results for children with disabilities, the Department has strengthened enforcement of the *Individuals with Disabilities Education Act.* For example, the Department improved its monitoring process through such changes as obtaining input from the public and parents before developing a state's corrective action plan, focusing those plans on requirements most directly influencing educational results for students, visiting certain states to ensure they have taken corrective actions and documenting both improvements and any remaining non-compliance.

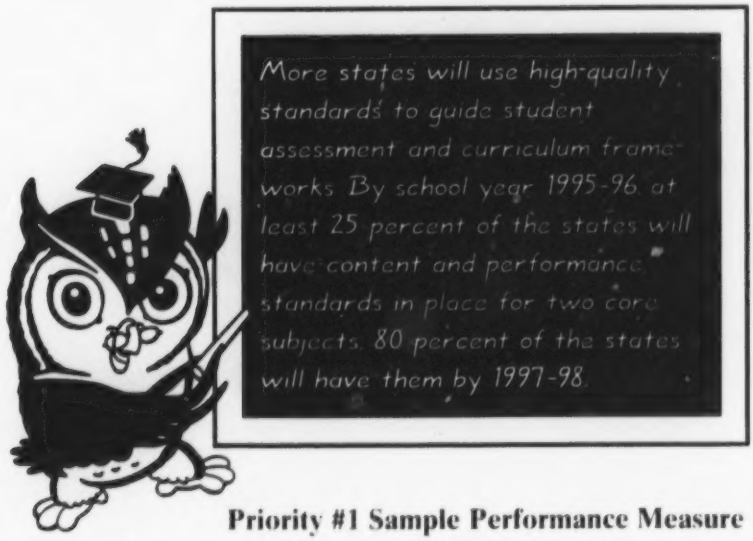
Rehabilitation Services and Disability Research programs provide assistance to one million adults with disabilities, most of them severe, in achieving successful employment outcomes and independent living. Each year, about 200,000 individuals with disabilities are placed in the competitive labor market or become self-employed. The Department administers these programs mostly through grants to states. States, in turn, develop, implement and coordinate comprehensive programs of vocational rehabilitation and independent living for individuals with disabilities.

Vocational Education programs support activities at both the secondary and postsecondary levels to prepare students for both college and careers. **Adult Education** programs provide assistance to approximately 4 million educationally disadvantaged adults to achieve literacy, certification of high school equivalency and English language proficiency.

The Department's **Impact Aid** program provides assistance to state and local communities for whom federal activities may present a hardship. The presence of a military base or federal ownership of a significant portion of local property, for example, may be undercutting the local tax base that ordinarily serves as the principal source of school funding. Impact Aid is intended to replace this lost revenue.

Professional Development funds support locally-guided teacher training in the core academic subjects. This investment is intended to ensure that teachers are prepared to teach to the high academic standards that states are now developing.

The **Safe and Drug-Free Schools** program now provides school security, drug prevention and education programs in 97 percent of America's school districts. *The Gun-Free Schools Act* and related Presidential Directive enforce a policy of "zero tolerance" in our schools—if a student brings a gun to school, he or she is suspended for one year.


More states will use high-quality standards to guide student assessment and curriculum frameworks. By school year 1995-96, at least 25 percent of the states will have content and performance standards in place for two core subjects. 80 percent of the states will have them by 1997-98.

Priority #1 Sample Performance Measure

Goals 2000 helps parents, teachers and community leaders improve their own schools. At the heart of Goals 2000 is a grants program that provides seed money to help states and communities develop and implement their own approaches to education reform. As a result, no new regulations have been needed to implement the program. According to a recent study, 48 states are developing common academic standards for their students in core subject areas, with 38 states having developed new or revised standards in the last year. This is more than 3 times the number of states established as a goal in our performance measure.

Research, Statistics and Improvement of education-related information were some of the initial responsibilities of the Department of Education when it was founded in 1867. These functions are just as important now as they were at the time of the Department's inception. This service has historically assisted educators and academics who look to the Department for guidance and leadership on a national level.

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Priority #2: Create a Comprehensive School-to-Work Opportunities System in Every State

The School-to-Work Opportunities Act embodies the Administration's vision that today's schools must prepare all students for high-skill careers. School-to-Work systems can improve student learning by connecting what goes on in the classroom to future careers and to real work situations, and by connecting students to a range of opportunities for postsecondary education and advanced training. Approximately 500,000 students in 1,800 schools across the Nation have participated in School-to-Work, seeing knowledge learned in the classroom applied to real world requirements in the workplace. Over 135,000 employers have participated in School-to-Work systems— this is more than ten times the number projected in our performance measure.

By Fall of 1996, at least 10,000 employers will participate in School-to-Work systems; by Fall of 2000, at least 50,000 employers will be participating.

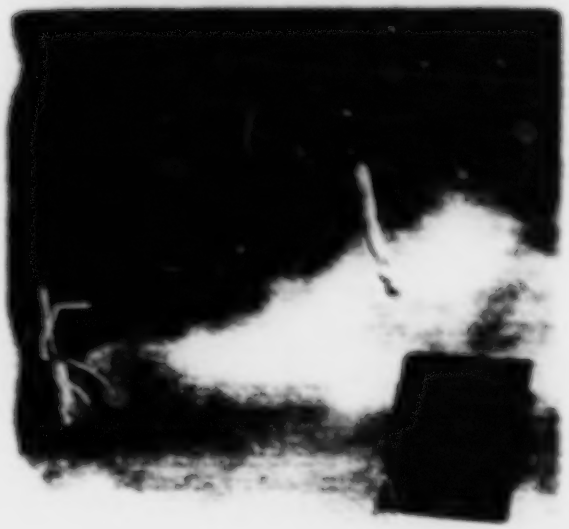
Priority #2 Sample Performance Measure

Priority #3: Ensure Access to High-Quality Postsecondary Education and Lifelong Learning

Because the challenges of today's economy make education after high school more important than ever, the Department has been working hard to ensure access to postsecondary education for all students. In order to help students and their families pay for college, the Department has focused on two major efforts: creating and implementing the Direct Loan program and increasing funding for federal student financial assistance which comprises grant, loan and Work-Study programs.

J.D. Hoye, Director, National School-to-Work Office, received the Ciba Educational Foundation Miss America Organization's "Woman of Achievement" Award during the Miss America Pageant telecast on September 14, 1996. The award prize money has helped establish a School-to-Work scholarship program–"The American Dream Awards."

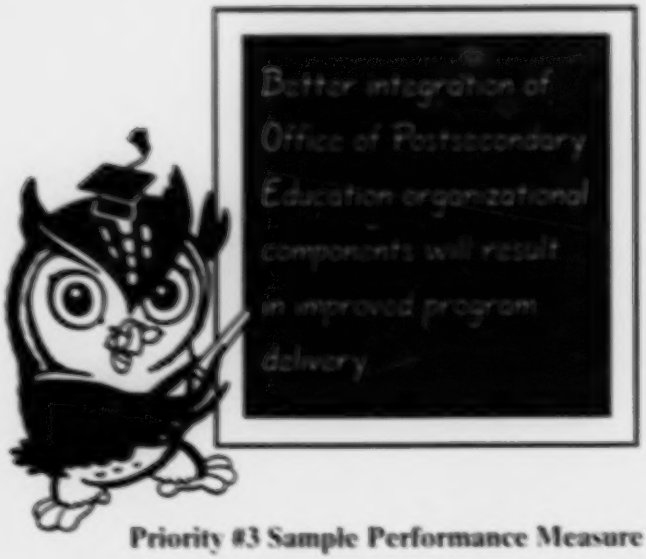
The Direct Loan program has revolutionized federal student loan delivery by providing borrowers and participating schools with a simple, more automated and accountable system. In this, its third successful year, the program will provide $9 billion in loans at over 1,600 schools. More than 2.1 million student and parent borrowers have received direct loans since the program began in 1993.



The **Pell Grant** program is the largest and most important form of student financial aid for the nation's neediest students. Each year, nearly 4 million students receive Pell grants averaging more than $1,500.

The Department's **Campus Based** programs provide assistance to institutions which enable them to provide students with grants, part-time employment and low interest loans on the basis of need. **Higher Education** programs support the development and strengthening of educational endeavors at institutions and provide for direct grants and fellowships to students through a variety of programs.

During fiscal year 1996, the Department also refocused its oversight of the postsecondary institutions that participate in the student financial aid programs. At the heart of this effort is the reorganization of the Office of Postsecondary Education's Institutional Participation and Oversight Service into regional case management divisions. These divisions are responsible for all core oversight functions for their respective portfolio of schools. A direct outcome of the strategic planning/performance measurement process, the reorganization will allow the Department to monitor schools' compliance with requirements of the student financial aid programs more efficiently while relieving administrative burden on schools.



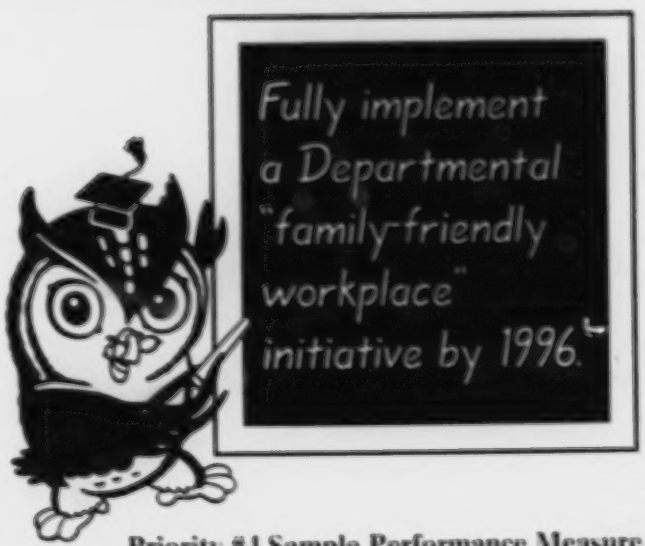
Priority #3 Sample Performance Measure

Priority #4: Transform the U. S. Department of Education into a High-Performance Organization

During fiscal year 1996, the Department continued to refine performance measures used in the strategic planning process. Performance reports show improvements and accomplishments in many areas. A few are detailed below.

Customer Access

The Department has dramatically improved customer access to its programs and materials. 1–800–USA–LEARN, the toll-free, one-stop shopping center, provides information and accurate referrals to approximately 5,000 callers each week. 1–800–4FED–AID,



Priority #4 Sample Performance Measure

our student aid hotline, will assist over 3 million callers this year. The Department's World Wide Web site (www.ed.gov) provides information to an average of 1.6 million requests each month and has received numerous awards for its content and customer-friendly access.

Reducing the Burden of Regulation and Paperwork

The Department recognizes that serving customers better requires reducing regulatory and paperwork burdens. We committed to eliminate or streamline 93 percent of all relevant regulations. In fiscal year 1996, the Department exceeded that ambitious goal by eliminating 39 percent and revising 55 percent of its regulations—a total reduction of 2,031 pages. By consistently applying a set of strict "Principles for Regulating" and consulting extensively with customers, the Department made significant practical changes that reduce requirements on school districts, state education agencies, colleges, grant applicants, student borrowers and their families. Finally, the Department cut more than 10 percent of the information collection requirements that were in place just a year ago.

Family-Friendly Work Environment

The Department of Education believes its employees are its greatest strength. Because of this, the Department strives to offer the tools and support its employees' need to develop to their full potential. The Department recognizes that employees have responsibilities to their families and communities, as well as to their jobs. As a result of the strategic plan, the Department's family-friendly program was fully implemented in fiscal year 1996. The program helps employees develop and implement personal strategies to maintain

Steven Winnick, Deputy General Counsel at the Department of Education, was named the "Best Boss in America for Working Mothers" by Redbook Magazine. Winnick was chosen in a competition that involved over 700 nominations. His nomination was submitted by two job-sharing attorneys and mothers who work for him. Commenting on the award, the Secretary of Education Richard Riley said "Steve stands as a shining example of the family-friendly policies we try to practice and promote."

a healthy and successful balance between home and work which in turn enables employees to make more effective contributions to the Department of Education.

Grants Reengineering

The Department is streamlining its discretionary grant processes by eliminating unnecessary requirements and improving the timeliness of grantee notification. When fully implemented, this reform is expected to reduce the number of steps needed to make a discretionary grant by 50 percent, cut the processing time by 25 percent, and reduce the notification time by 2 to 3 months.

Drawing by Julia Sharpe, first grader, Courthouse Road Elementary School, Spotsylvania County, Virginia.

Hammer Awards

Four Department of Education Teams received the prestigious Hammer Award in fiscal year 1996 for their work in helping to reinvent the Department and increase the efficiency of government. The Hammer Award is Vice President Gore's recognition to teams throughout the federal government who have supported the President's National Performance Review (NPR) principles— putting customers first, cutting red tape, empowering employees and getting back to basics. The following four teams received a framed hammer and a note from the Vice President: the Cooperative Audit Resolution and Oversight Initiative Team, the Performance Appraisal System Implementation Team, the Rehabilitation Services Administration Service Delivery Reform Team and the Reinvention Coordinating Council. The Department has received a total of ten Hammer Awards since the President's NPR initiative began in 1993.

Labor-Management Partnership

In September 1996, the Department received the Eagle Award from the National Partnership Council for its success in transforming labor-management relations and for helping to build a government that "works better and costs less." The National Partner-

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ship Council recognizes achievements of labor-management partnerships working together to create better government. The Department was one of 93 federal agencies/installations nationwide nominated, and one of only five to receive the award.

Reengineered Management Processes

Fiscal year 1996 was also a year of significant redesign of management processes to better serve the Department's internal customers. In addition to the family-friendly program described above, several key management processes have been overhauled to improve the timeliness and quality of services. For example:

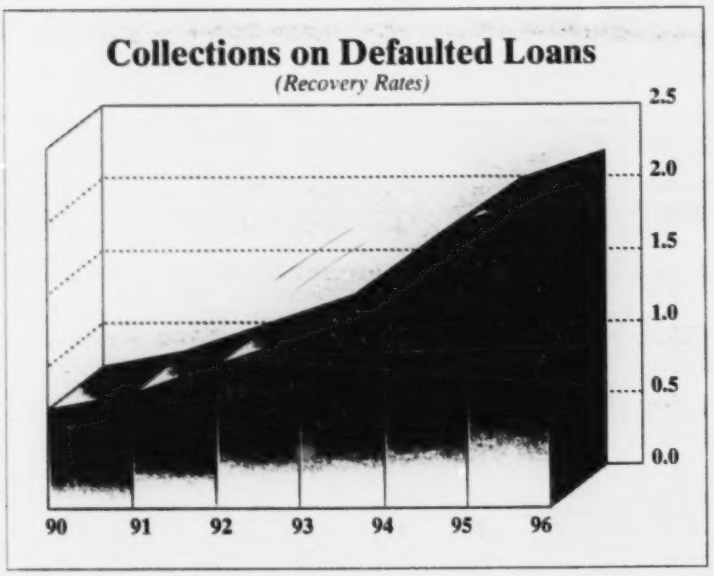
- A new multi-rater, automated performance appraisal system was implemented. The system was designed by two employee teams in such a way so that employees receive feedback on their performance not only from supervisors, but also from peers and people who served as customers.
- The Department's Training and Development Center implemented a strategy to bolster the Department's strategic plan, providing training and consultative support to organizations wishing to improve their productivity.

Financial Highlights

Fiscal year 1996 was a year of profound improvement in Department financial management. Student loan default rates dropped dramatically while collections rose steadily. However, we have not yet completed correcting longstanding problems. Structural deficiencies in the Federal Family Education Loan (FFEL) Program continue to raise concerns as to the accuracy of student loan data in the Department's systems. A small number of ineligible recipients also still manage to receive financial assistance and the audit follow-up function has been taxed by additional audit requirements. Our financial management systems infrastructure, while under a major rebuilding effort, is also seriously inadequate. We are addressing these problems.

Student Loan Defaults and Collections

The Department's Office of Postsecondary Education has improved control over defaulted student loans resulting in both decreased defaults and increased collections. At the same time, however, loan volume has grown. The national cohort default rate (the percent of loans on which repayment did not occur during the first and second years when payment was due) in the FFEL Program has dropped from 22.4 percent for the fiscal year 1990 cohort to 10.7 percent for the fiscal year 1994 cohort (the Direct Loan Program has yet to experience significant defaults). This Office has continued its aggressive accountability and collection activities resulting in a near doubling of collections in 4 years to over $2 billion in fiscal year 1996. Defaulters face serious sanctions, including general income tax refund offset, wage garnishment, denial of further student aid and loss of other forms of credit. While the IRS tax refund offset program continues to be a major source of collecting defaulted loans, the use of wage garnishments has increased from 5,000 defaulters in fiscal year 1995 to 25,000 in fiscal year 1996.



As a result of the Department's efforts to target its monitoring resources on schools that pose the greatest risk to student and taxpayer funds, a total of 672 institutions have lost eligibility to participate in Title IV programs, with 381 institutions having been terminated for all Title IV programs for poor performance and 291 institutions having lost their eligibility to participate in the student aid programs through the ongoing recertification process. In addition, 203 institutions are no longer eligible for participation in the loan programs because of high default rates. These aggressive accountability and oversight efforts, commonly referred to as "gatekeeping," remove ineffective schools from the student financial aid programs, both protecting students and ensuring accountability for taxpayer funds.

Administrative Cost Reductions

As part of Priority 4: "Transform the U.S. Department of Education into a High-Performance Organization," the Department has initiated several efforts to not only increase performance, but also to reduce costs associated with administrative activities. The benefits associated with these activities are quantifiable, as well as being sound management practices.

- The Department is participating in several programs that reduce the administrative costs associated with travel as well as the need for cash advances to travelers. In addition, by using the American Express Card and the Travel Management Centers, the Department received over $113,000 in rebates during fiscal year 1996. This figure was lower than the savings in fiscal year 1995 because of the ban on travel during the December 1995 federal employee furlough.

- One of the Department's goals is to reduce the number of purchase orders processed and increase usage of the International Merchant Purchase Authorization Card (IMPAC). The IMPAC card is a credit card carrying the VISA® logo. During fiscal year 1996, there were 8,418 purchases totaling $4.4 million made using the IMPAC Card, thereby eliminating paperwork associated with traditional procurement practices. The volume will increase in fiscal year 1997 as the range of products

and services procured by the Card expands, e.g., in one principal office the Department is piloting the use of the IMPAC Card to pay Federal Express bills. The Department has also developed and implemented an automated system for reconciling the IMPAC bill, creating the payment and posting the expenditure to the accounting system.

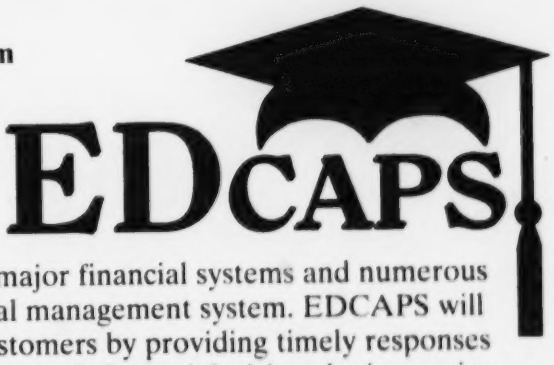
- During fiscal year 1996 the Department successfully piloted and implemented the Third Party Payment System (TPPS), an automated system that enables employees to make selected payments using draft instruments in lieu of cash and government checks. Principal offices utilized TPPS and issued 6,085 drafts totaling $1,752,000 in fiscal year 1996 with savings to the Department of $146,000. Drafts were issued for employee reimbursements, spot cash awards, field reader payments and simplified acquisitions (as appropriate). Customer service was also enhanced by reducing the processing time for regional employee reimbursements from 6 to 8 weeks to one week. TPPS also enabled the Department to eliminate its imprest fund operation, thereby improving cash management practices.

- The Debt Collection Improvement Act of 1996 requires Education to pay all **new** customers electronically and to pay **all** customers electronically by January 1, 1999. The Office of the Chief Financial Officer has modified contract language to require electronic payments and has developed a new method of payment [TPPS—see above] to help implement the Act.

Financial Improvement Initiatives

The Department is committed to improving financial performance and has taken several significant steps to ensure that funds are spent effectively and efficiently. This section highlights improvement initiatives and actual performance to date. These activities include integrating our financial systems, cash management and electronic commerce.

Education's Central Automated Processing System



The Department is investing in tighter, more efficient management of tax dollars by upgrading its financial management systems and automating manual procedures. This major investment in Education's Central Automated Processing System (EDCAPS) will replace three major financial systems and numerous supporting systems with a fully-integrated financial management system. EDCAPS will contribute to the Department's ability to serve customers by providing timely responses to customer inquiries, empowering employees to make informed decisions by increasing their access to data and increasing accountability through improved financial management. EDCAPS will implement three primary business processing modules, each with a similar "look and feel" and all accessible under the same EDCAPS group of business process activities. All modules will manage information from a common relational database and use state of the industry reporting tools for quick, easy access to information. The improved data integrity and reporting capabilities will be a breakthrough for the Department's recipients in their participation in federal education programs and for the Department's managers who will have accurate information when they need it.

Fiscal year 1996 was a key period in the development of EDCAPS. The procurement of commercial off-the-shelf software packages in the previous year became the springboard for testing and enhancing the Financial Management System Software and Contracts and Purchasing Support System in fiscal year 1996. The Grants Administration and Payments System's (GAPS) functional requirements were developed by focus groups who provided tremendous insight to the project. Their efforts produced draft screen layouts supporting the functionality required of the GAPS module.

In addition to developing the three primary modules of EDCAPS, significant strides were taken to bring the Department of Education's staff and all EDCAPS external customers up to speed on the new system. These communication efforts provided many of the Department's recipients, staff and contractors with an understanding of the purpose of the new system and what it will mean to them. Staff and grant recipients alike were delighted that EDCAPS will reduce the paper burden, increase accountability and the speed of business information management. Training plans were developed and training was initiated to support the early phases of EDCAPS implementation. "Just-In-Time" training is being provided to reduce time between training and system use, thus maximizing the training benefit.

Cash Management Improvement Activities

States are charged interest on excess federal funds held in their private bank accounts. States also submit reimbursement claims for interest owed them because the Department was late in sending funds, thereby requiring the States to use their own funds. For fiscal year 1996, the States' liabilities from interest earned on excess Education funds were $5.3 million while they claimed interest of only $0.5 million being owed by the Department. Hence, due to the Department's prompt delivery of funds to States, the Federal Treasury was entitled to receive over $4.8 million.

Electronic Commerce

The Department of Education is committed to electronic commerce and other technological advances and continues to automate by using the latest technology to send out requests and award contracts. Savings of 10 percent per order have been achieved through access to a much larger selection of vendors. The Department recently developed an accounting interface link that will assure effective processing until the conversion to EDCAPS (see previous page).

Highlights of Reporting Requirements

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agency managers to conduct regular evaluations of management controls with special attention to accounting systems to protect federal programs from fraud, waste and mismanagement. FMFIA compliance is embodied in larger efforts to reform management processes at the Department.

As shown in the chart below, six problem areas within the Department are considered serious or "material" as defined by the Act. The material weakness added in 1995 is the result of the first Department-wide financial statement audit for the fiscal year ended September 30, 1995. The auditors disclaimed an opinion on our financial statements because they were not satisfied with the reliability of data supporting estimated guaranteed loan liabilities. The Department has taken a more direct approach to developing these estimated liabilities for fiscal year 1996.

Management Control Issues

Material Weakness/Non Conformance	Year Identified	Year To Be Corrected
Student Financial Aid—Institutional gatekeeping and monitoring activities are inadequate	1989	1998
The Department's general ledger cash balances do not always reconcile with the Treasury Department	1989	1998
Accounting for loan losses, interest subsidies and loan origination fees is inadequate	1990	1997
Student Financial Aid—There is no assurance that all schools are submitting audit reports and/or recovering misspent funds	1991	1997
ADP equipment inventory controls are inadequate	1994	1997
The quality of Federal Family Education Loan Program data is unreliable for management decisions	1995	1997

Management Response to Report on Audits of External Entities

The Inspector General Act Amendments of 1988 require departments to submit semiannual reports to Congress regarding management actions taken in response to Inspector General external entity audit recommendations. Audit follow-up activities at the Department are the responsibility of the Chief Financial Officer, who ensures that timely responses are made to all audit recommendations and that appropriate corrective action is taken.

In fiscal year 1996, the Department completed action on 807 audit reports and collected or received promissory notes totaling $9.9 million. Also during the reporting period, the Department took final action on one additional audit report which improved use of almost $119 million in federal funds by educational institutions and state entities.

Prompt Pay

The Prompt Payment Act requires that agencies report annually on the promptness with which they pay their bills. During fiscal year 1996 the Department's payments subject to the Act were made three ways: through the Department of Agriculture's National Finance Center, using the International Merchant Purchase Authorization Card (VISA® credit card) and issuing third party payment instruments. The Department's prompt payment performance for fiscal year 1996 was the best ever (97.7 percent prompt payments). Late payment penalties were paid on 734 invoices as compared to 1,045 invoices for fiscal year 1995. Furthermore, both the number of invoice payments and the dollar value of the invoices were greater in fiscal year 1996 than in fiscal year 1995 (31,832 payments totaling $521,537,000 vs. 23,915 payments for $443,400,000). Increased use of government charge cards, coupled with solid cash management practices, has improved ED's performance under the Prompt Payment Act.

1996 Financial Statements and Accompanying Notes

The fiscal year 1996 financial statements presented in this report are unaudited. The 1995 financial statements are presented for comparative purposes. We received a disclaimer of audit opinion on the 1995 financial statements because of our auditor's concerns with the integrity of the data supporting our cost estimates for the Federal Family Education Loan Program. An audit of the Department, in accordance with the Government Management Reform Act of 1994, is currently underway. A copy of the audited financial statements together with the auditor's report will be available around July 31, 1997 and can be obtained by completing the mail-in card in the back of this report. If the card has been removed, you may call (202) 401–0322 to place your order.

The 1996 financial statements have been prepared to report the financial position and results of operations of the Department of Education, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act. While these statements have been prepared from the books and records of the entity in accordance with formats prescribed by the Office of Management and Budget, these statements are different from the financial reports used to monitor and control the budgetary resources which are prepared from the same books and records.

The financial statements should be read with the understanding that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

UNITED STATES DEPARTMENT OF EDUCATION

Consolidated Statement of Financial Position

September 30, 1996 and 1995

(Dollars in Thousands)

Assets	**1996** (unaudited)	**1995** (for comparative purposes)
Entity Assets		
Intragovernmental Assets:		
Fund Balances with U.S. Treasury	$37,017,481	$39,375,252
Governmental Assets:		
Credit Program Receivable, Net:		
Direct Loans	11,525,457	3,139,881
Defaulted Guaranteed Loans	3,223,618	3,203,028
Facilities Loans	519,027	533,086
Advances to Guaranty Agencies, Net	38,916	39,763
Accounts Receivable, Net	17,276	11,769
Investments	19,148	19,148
Total Entity Assets	52,360,923	46,321,927
Non-Entity Assets		
Governmental Assets:		
Guaranty Agencies' Reserves Receivable, Net	2,417,632	2,129,297
Accounts Receivable, Net	25,076	32,982
Total Non-Entity Assets	2,442,708	2,162,279
Total Assets	$54,803,631	$48,484,206

The accompanying notes are an integral part of these statements.

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UNITED STATES DEPARTMENT OF EDUCATION

Consolidated Statement of Financial Position

September 30, 1996 and 1995

(Dollars in Thousands)

Liabilities and Net Position	1996 (unaudited)	1995 (for comparative purposes)
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Borrowing from U. S. Treasury	$ 12,718,549	$ 5,610,339
Interest Payable to U. S. Treasury	21,480	12,049
Governmental Liabilities:		
Estimated Liabilities for Loan Guarantees	12,801,254	11,850,424
Guaranty Agencies' Reserves - Due to Treasury	2,417,632	2,129,297
Accrued Grant Liability	320,758	771,349
Accrued Contractual Services Liability	80,1807	69,820
Accrued Salaries and Benefits	15,507	14,013
Other Accrued Liabilities	69,088	62,424
Total Liabilities Covered by Budgetary Resources	28,444,275	20,519,715
Liabilities Not Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Borrowing from U.S. Treasury	814,457	1,134,178
Governmental Liabilities:		
Estimated Liabilities for Loan Guarantees	2,217,111	1,056,039
Accrued Salaries and Benefits	21,969	20,198
Accrued Workers Compensation Liability	9,487	10,431
Total Liabilities Not Covered by Budgetary Resources	3,063,024	2,220,846
Total Liabilities	31,507,299	22,740,561
Net Position		
Unexpended Appropriations	26,263,153	27,862,535
Invested Capital	95,879	101,795
Future Funding Requirements	(3,063,024)	(2,220,846)
Donations	324	161
Total Net Position	23,296,332	25,743,645
Total Liabilities and Net Position	$ 54,803,631	$ 48,484,206

The accompanying notes are an integral part of these statements.

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UNITED STATES DEPARTMENT OF EDUCATION

Consolidated Statement of Operations and Changes in Net Position

For the Year Ended September 30, 1996 and 1995

(Dollars in Thousands)

Revenues and Expenses	1996 (unaudited)	1995 (for comparative purposes)
Revenues		
Interest, Non-Federal	$ 506,341	$ 82,931
Interest, Federal	915,999	847,844
Other Revenue	4,068	316
Total Revenues	1,426,408	931,091
Expenses		
Direct Loan Subsidy Expense	495,189	436,132
Guaranteed Loan Subsidy Expense	4,564,504	2,651,988
Elementary and Secondary Education Grants	9,421,680	9,324,757
Postsecondary Education Grants	7,635,721	8,149,761
Special Education and Rehabilitative Services Grants	5,741,667	5,580,045
Other Grants	1,485,292	2,035,320
Interest Expense	1,516,150	1,036,332
Salaries and Administrative Expenses	452,495	401,932
Contractual Program Expenses	645,060	667,261
Bad Debt and Write-offs	(26,592)	2,919
Other Expenses, Net	—	559
Total Expenses	31,931,166	30,287,006
Net Operating Activity	$ (30,504,758)	$ (29,355,915)

Changes in Net Position

Net Position, Beginning of Year	$25,743,645	$ 22,665,748
Net Operating Activity	(30,504,758)	(29,355,915)
Plus (Minus) Non-Operating Changes		
Appropriated Funds Received	29,378,082	33,274,634
Appropriated Funds Returned	(1,295,524)	(875,040)
Appropriations Transferred (To) From Others	(25,113)	34,218
Net Position, End of Year	$ 23,296,332	$ 25,743,645

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF EDUCATION

Consolidated Statement of Cash Flows

For the Year Ended September 30, 1996 and 1995

(Dollars in Thousands)

Net Cash Provided (Used) by Operating Activities

	1996 (unaudited)	1995 (for comparative purposes)
Operating Cash Provided		
Defaulted Loans Collected	$ 2,448,328	$ 2,013,058
Loan Origination and Other Fees	1,303,938	1,146,894
Interest, Federal	915,999	804,695
Interest and Penalty, Non-Federal	139,458	40,864
Other Operating Cash Provided	8,518	11,239
Total Operating Cash Provided	4,816,241	4,016,750
Operating Cash Used		
Interest and Penalties, Non-Federal	(93)	(54)
Interest, Federal	(992,879)	(525,993)
Defaulted Loan Payments	(2,787,767)	(2,521,173)
Interest Subsidy Payments	(3,077,813)	(2,801,143)
Mandatory Administrative Expenses	(209,869)	(257,862)
Grant Award Payments	(24,731,647)	(25,014,693)
Salaries and Benefits	(304,297)	(308,682)
Rent, Communications, and Utilities	(93,159)	(53,444)
Contractual Program Services	(637,266)	(658,288)
Printing and Reproduction	(20,879)	(15,718)
Travel and Transportation	(9,383)	(11,954)
Materials, Supplies, and Equipment	(22,332)	(21,679)
Guaranty Agency Collection Fees	(335,818)	(285,376)
Payment of Origination Services	(19,507)	(3,750)
Other Operating Cash Used	—	(835)
Total Operating Cash Used	(33,242,709)	(32,480,644)
Net Operating Cash Used by Operating Activities	$ (28,426,468)	$ (28,463,894)

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF EDUCATION

Consolidated Statement of Cash Flows

For the Year Ended September 30, 1996 and 1995

(Dollars in Thousands)

	1996 (unaudited)	1995 (for comparative purposes)
Cash Provided (Used) by Investing Activities		
Collection of Advances	—	750
Collection of Loans Receivable	261,720	73,847
Loan Disbursements	(9,038,958)	(3,267,940)
Net Cash Used by Investing Activities	(8,777,238)	(3,193,343)
Cash Provided (Used) by Financing Activities		
Appropriated Funds Received	29,378,082	33,274,634
Appropriations Transferred From (To) Others	(25,113)	34,218
Appropriated Funds Returned	(1,295,524)	(875,040)
Net Appropriations	28,057,445	32,433,812
Repayments to U.S. Treasury for Borrowings	(1,168,693)	(759,319)
Borrowing from U.S. Treasury	7,957,183	4,892,496
Net Cash Provided by Financing Activities	34,845,935	36,566,989
Net Cash Provided (Used) by Operating, Investing, and Financing Activities	(2,357,771)	4,909,752
Fund Balances with U.S. Treasury, Beginning of Year	39,375,252	34,465,500
Fund Balances with U.S. Treasury, End of Year	$37,017,481	$39,375,252

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF EDUCATION

Consolidated Statement of Cash Flows

For the Year Ended September 30, 1996 and 1995

(Dollars in Thousands)

Reconciliation of Net Operating Activity Before Appropriations to Net Cash Used by Operating Activity

	1996 (unaudited)	1995 (for comparative purposes)
Net Operating Activity	$ (30,504,758)	$ (29,355,915)
Adjustments to Reconcile Net Operating Activity to Net Cash Used by Operating Activities:		
Decrease (Increase) in Credit Program Receivable, Net:		
Direct Loans	428,277	457,924
Defaulted Guaranteed Loans	(20,590)	301,843
Facilities Loans	(22,556)	(12,990)
Decrease in Advances to Guaranty Agencies, Net	847	1
Decrease (Increase) in Entity Accounts Receivable, Net	(5,507)	(8,408)
Decrease (Increase) in Non-Entity Accounts Receivable, Net	7,907	(32,982)
Increase in Interest Payable to U. S. Treasury	9,431	1,910
Increase in Estimated Liabilities for Loan Guarantees	2,111,902	81,529
Increase (Decrease) in Accrued Grant Liability	(450,591)	76,309
Increase (Decrease) in Accrued Contractual Services Liability	10,187	(6,313)
Increase (Decrease) in Accrued Salaries and Benefits	3,265	(10,980)
Increase in Other Accrued Liabilities	6,661	42,799
Increase (Decrease) in Accrued Workers Compensation Liability	(943)	1,379
Net Adjustments	2,078,290	892,021
Net Cash Provided by Operating Activities	$ (28,426,468)	$ (28,463,894)

The accompanying notes are an integral part of these statements.

Note 1—Reporting Entity

These consolidated principal financial statements present the financial position and activity of the U.S. Department of Education (ED), a cabinet-level agency of the Executive Branch of the United States Government. ED executes programs under the Education, Training, Employment and Social Services function established by Congress in the Budget Act of 1974. ED's financial activity relates to execution of its congressionally approved budget and programs. This activity is recorded in individual general (appropriated) funds and summarized for reporting purposes.

These statements include the activity and balances of our two principal student loan programs, the Federal Family Education Loan (FFEL) and William D. Ford Direct Loan programs, along with other programs and activities of the Department. The FFEL Program, authorized by the Higher Education Act of 1965, as amended (HEA), operates with state and private nonprofit guaranty agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students attending participating postsecondary schools. The Direct Loan Program, authorized by the Student Loan Reform Act of 1993, is an alternate to the FFEL Program in which loan capital is provided by the federal government through borrowing from the U.S. Treasury.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations and changes in net position and cash flows of the Department, as required by the Chief Financial Officers Act of 1990 (Public Law 101–576) and the Government Management Reform Act of 1994. ED prepared the financial statements from its books and records in accordance with the Department's accounting policies, which are summarized in this note. These statements are different from the financial reports used to monitor and control the use of budgetary resources, which are also prepared by ED pursuant to OMB directives.

ED's accounting policies follow an "other comprehensive basis of accounting," comprising the following hierarchy, agreed to by the Comptroller General, the Secretary of the Treasury and the Director of the Office of Management and Budget (OMB):

1. Individual standards agreed to by the above named officials. These are known as Statements of Federal Financial Accounting Standards (SFFAS).
2. Form and content requirements in OMB Bulletin 94–01, *Form and Content of Agency Financial Statements*, dated November 16, 1993.
3. Accounting standards contained in agency accounting policy, procedures manuals and/or related guidance as of March 29, 1991, so long as they are prevalent practices.

4. Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

OMB Bulletin 94–01 prescribes a framework for agencies to develop financial statements which provide information useful to Congress, government officials and the public. ED has informed OMB in a letter dated February 14, 1997 of its intent to use the same deviations from OMB Bulletin 94–01 on FY 1996 financial statements that were requested, approved by OMB and used on ED's FY 1995 financial statements, unless an objection is raised. OMB has not objected to use of the following deviations in ED's FY 1996 principal statements:

The Statements of Operations and Changes in Net Position follows the format suggested in the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, which identifies a separate disclosure for the total effects of operations, exclusive of appropriations or intra-governmental funding sources.

We have discontinued the Statement of Budgetary Resources and Actual Expenses, which is not provided for in the Government Management Reform Act of 1994 nor in the Statement of Federal Financial Accounting Concepts for Entity and Display, issued April 20, 1995 by OMB.

Basis of Accounting

Transactions are recorded on an accrual basis. Therefore, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of all funds under ED's control. All interfund balances within ED have been eliminated. The consolidated financial statements do not include centrally-administered assets and liabilities related to the federal government as a whole, such as General Services Administration owned property and equipment, and borrowing from the Public by the U.S. Treasury, which may in part be attributable to ED.

Budgets and Budgetary Accounting

The components of ED's budgetary resources include current budget authority (i.e., appropriations and borrowing authority) and unobligated balances remaining from multi-year and no-year budget authority received in prior years. Budget authority is the authorization provided by law to enter into financial obligations that result in immediate

or future outlays of federal funds. Budgetary resources also include reimbursements received and other income (i.e., spending authority from offsetting collections credited to an appropriation or fund account) and adjustments (i.e., recoveries of prior year obligations). Pursuant to Public Law 101–510, unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled, five years after they expire, amounts are not available for obligation or expenditure for any purpose.

Financing Sources and Program Revenues

ED receives the majority of the funding needed to support its programs through congressional appropriations. Borrowing from the Treasury, another financing source, provides most of the funds for the Direct Loan Program loans to students and Facilities Loan Program loans to postsecondary institutions. The effect on ED's net position of appropriations received, returned and transferred to others is shown in the Statement of Changes in Net Position.

Revenues are recognized as financing sources when payments are received or become payable to ED from other agencies and from the public in exchange for goods and services rendered to others. Major sources of reported revenues include interest accrued or collected from Direct Loan Program borrowers on outstanding loans receivable and interest accrued or collected from Treasury on uninvested fund balances. Fees received on student financial assistance loans, such as loan origination fees, are offset against subsidy costs and therefore are not reported as revenue.

Subsidy Estimates and Reestimates

The Federal Credit Reform Act of 1990 (CRA) was enacted to measure the costs of federal credit programs more accurately, place the cost of credit programs on a budgetary basis equivalent to other federal spending, encourage the delivery of benefits in the form most appropriate to the needs of the beneficiaries and improve the allocation of resources among and between credit programs and other spending programs. All credit programs within ED conform with the provisions of CRA beginning with fiscal year 1992 transactions.

CRA, SFFAS No. 2—*Accounting for Direct Loans and Loan Guarantees*, and related regulations and guidance, require recording the net present value of subsidy costs (i.e., estimated interest rate differentials from market rates, interest subsidies, defaults, collections on defaulted loans, fee offsets, certain administrative expenses and other cash flows) associated with direct loans and loan guarantees to be recognized in the year loans are disbursed for both budgetary and accounting purposes. In addition, the net present value of these subsidy costs are recorded as allowance for Direct Loan subsidy or liabilities for loan guarantees.

Subsidies are estimated based on the difference between present values of expected government cash outflows and inflows, discounted by the interest rate earned by a Treasury debt instrument of similar term on the date loans are disbursed. Subsidy costs are recognized as expenses in the year loans are disbursed.

In accordance with SFFAS No. 2, the subsidy costs of credit program loans are reestimated each year as of the financial statement date. A reestimate is a change in the net present value of estimated cash flows due to changes in interest rates, defaults, delinquencies, prepayment and recoveries. Any increase (decrease) in the subsidy cost resulting from the reestimates is recognized as an increase (decrease) of subsidy expense.

Fund Balances With U.S. Treasury

ED does not maintain significant amounts of cash in commercial bank accounts. Cash receipts and disbursements are generally processed by the U.S. Treasury. However, ED has the authority to disburse U.S. Treasury funds directly to agencies and institutions participating in ED programs. The Fund Balances with U.S. Treasury are primarily revolving funds, other appropriated funds and undisbursed U.S. Treasury borrowings available to pay current liabilities and to finance subsidy expenses for post-1991 loans. A portion of the appropriated funds included at September 30, 1996 and September 30, 1995, were forward-funded by multi-year appropriations for expenditures anticipated during the years ending September 30, 1997 and September 30, 1996, respectively. ED does not have any restricted unobligated balances. Fund Balances with U.S. Treasury do not include any non-entity funds.

Investment

Congress appropriated funds for the Department to invest in the College Construction Loan Insurance Association (commonly known as Connie Lee) start up costs when it was incorporated in 1987. Connie Lee was created to insure and re-insure the financing of construction of postsecondary educational facilities. ED has two appointed members on Connie Lee's Board of Directors and holds about 14 percent of its shareholder equity. While Connie Lee may be considered a government-sponsored enterprise, it is neither a government corporation nor a government-controlled corporation. Therefore, ED would not incur any liabilities if Connie Lee suffered losses or went bankrupt. This investment is reported at cost. However, the Secretary of Education is authorized to sell any portion, or all, of this investment at a price established by the binding independent market appraisal of a nationally-recognized financial firm. The sale of this investment and the privatization of this entity was initiated after September 30, 1996. The current status of this investment is discussed further in Note 11, Subsequent Events.

The Student Loan Marketing Association (Sallie Mae) is a major holder of guaranteed loans. Seven of the 21 members of the Sallie Mae Board of Directors are appointed by the President of the United States. However, neither ED nor the federal government

has any investment in that for-profit corporation. ED's transactions with Sallie Mae are essentially the same as those with any other lender organization. The current status of this investment, including the privatization of this entity, is discussed further in Note 11, Subsequent Events.

Credit Program Receivables

Credit program receivables are carried at the principal amounts outstanding, net of allowances for subsidy or uncollectible receivables. Credit programs include the FFEL and Direct Loans programs, and the Facilities Loan Program. Allowances for subsidy cost represent the differences between the present values of estimated net cash inflows and outflows of the underlying credit program loans. The allowance for subsidy is amortized by the effective interest method using the interest rate determined at the time credit program loans were disbursed. For the pre-CRA loans, the allowances for uncollectible receivables represents an analysis of loan collectibility based on risk groupings of borrowers.

Accounts Receivable

Accounts receivable are due from recipients of grant and other financial assistance programs, and other federal agencies. These amounts are initially listed and controlled in a claims-in-process file due to their contingent nature. When the collection probability of such a claim is established by obtaining a payment, promissory note, or entering into a settlement agreement with the debtor, an accounts receivable and offsetting historically determined allowance for uncollectibility is recorded in the ledgers and reported in the statements.

Guaranty Agency Reserves

Federal fund balances held by the state and non-profit guaranty agencies participating in FFEL Program operations are recognized on an accrual basis as ED receivables and as payables to Treasury. These balances are offset by an allowance for uncollectibles based on ED management's judgment (see Note 7). Guaranty agency reserves are available balances resulting from receipts of federal reinsurance payments, insurance premiums, agency share of collections on defaulted loans, investment income and administrative cost allowances; and payments of lender claims, operating expenses and federal reinsurance fees. Agency and ED shares of default collections for 1996 and 1995, are 27% and 73%, respectively.

The Balanced Budget Down Payment Act provides that 1) the Secretary may not require return of guaranty agency reserve funds except after consultation with both the Chairmen and Ranking Members of the House Economic and Educational Opportunities Committee and the Senate Labor and Human Resources Committee; and 2) any reserve funds recovered by the Secretary shall be returned to the Treasury for purposes

of reducing the federal deficit. In accordance with these provisions, the guaranty agency reserves are reported as both a non-entity receivable asset and a payable to Treasury.

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by ED as a result of transactions or events that have already occurred. However, no liability can be paid by ED absent an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities). Most of FFEL and Direct Loan program liabilities result from entitlements covered by permanent authority and ED is required to pay these liabilities if all eligibility requirements are met. Any non-entitlement liability of the Department, such as federal administrative costs, not arising from contracts, and entitlements not yet vested, can be abrogated by the government acting in its sovereign capacity.

Under the FFEL Program's accounting policies, liabilities for loan guarantees include provisions for payment of loan defaults, interest subsidies and special allowance benefits, certain administrative expenses (administrative expense allowances and supplemental preclaims assistance) and interest expense. These liabilities are offset by estimated future collections on loans that will default, loan origination fees paid by borrowers and fees paid by lenders, including Sallie Mae.

Liabilities are recognized when applicable for funds expended by state and local governments and other recipient organizations for amounts due and payable by ED under the terms of financial assistance agreements (accrued grant liability).

Borrowing from the U.S. Treasury

Borrowings from the U.S. Treasury provide most of the funding for loans in the Direct Loan and Facilities Loan programs. Principal repayments are made to Treasury based on the repayment schedules of the underlying loans. Borrowings from the U.S. Treasury are also reduced by authorized write-offs of Facilities Loan Program loans receivable. Interest is paid to Treasury based on a weighted average rate determined for each year.

Accrued Grant Liability

Disbursements of funds under ED's more than 200 grant programs are generally made when requested by grantees. These drawdown requests may be received and fulfilled before grantees make ED program expenditures. When funds have been disbursed by ED, but expenditures are not yet reported by grant recipients, these disbursements are recorded as advances. However, if a recipient reports program expenditures that have not been advanced by ED as of the end of the fiscal year, such amounts are recorded as grants payable and grant expenses in that fiscal year. The net result of these amounts is shown as accrued grant liability on the Consolidated Statement of Financial Position.

Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Retirement Plans

The majority of ED employees participate in the contributory Civil Service Retirement System (CSRS), to which the Department makes matching contributions equal to seven percent of pay, or the Federal Employees Retirement System (FERS), offering a savings plan, which automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. In addition, for employees covered under FERS, the Department also contributes the employer's matching share for Social Security. ED does not report CSRS or FERS assets, accumulated plan benefits, or liabilities not covered by budgetary resources (unfunded liabilities), if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

Net Position

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations, invested capital, future funding requirements and donations. Unexpended appropriations include undelivered orders.

Invested capital includes amounts advanced to guaranty agencies under sections 422(a) and 422(c) of the HEA for commencement of agency operations and making loan default payments to lenders, acquisitions of capital assets and investments in Connie Lee. Net position has been reduced to reflect the excess of unfunded liabilities over any offsetting assets, which will require future funding. These unfunded liabilities include ED's liabilities for accrued leave, certain loan guarantees and actuarial liabilities not covered by available budgetary resources. Donations are relatively small contributions of funds which the Secretary has authority to accept and spend for certain purposes.

Comparative Data and Reclassifications

Comparative data for the prior fiscal year are presented to provide an understanding of changes in the financial position and operations of the Department. Certain 1995 amounts have been reclassified to conform to 1996 classifications.

Note 3—Fund Balances with U.S. Treasury

Fund balances with the U.S. Treasury at September 30 were as follows (in thousands):

		1996		
		Obligated	Unobligated	Total
Forward Funded	—Revolving Funds	$ 999,437	$ 8,152,428	$ 8,961,865
	—Appropriations	13,945,184	4,391,785	18,336,969
Current Year	—Appropriations	8,062,416	588,574	8,650,990
	—Trust Funds	55	64	119
Total Appropriated Balances		$ 22,817,092	$ 13,132,851	$ 35,949,943
Deposit Funds				1,031,315
Budget Clearing Accounts				36,223
Total				$ 37,017,481

		1995		
		Obligated	Unobligated	Total
Forward Funded	—Revolving Funds	$ 1,939,555	$ 7,579,417	$ 9,518,972
	—Appropriations	16,021,632	4,406,537	20,428,169
Current Year	—Appropriations	7,986,591	734,129	8,720,720
	—Trust Funds	73	104	177
Total Appropriated Balances		$ 25,947,851	$ 12,720,187	$ 38,668,038
Deposit Funds				722,919
Budget Clearing Accounts				(15,701)
Total				$ 39,375,252

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Note 4—Loans and Loan Guarantees

Analyses of credit program receivables, liabilities for loan guarantees and subsidy expenses are provided in the following sections.

A. Credit Program Receivables, at September 30 were (in thousands):

	1996		
	Direct Loans	Defaulted Guaranteed Loans	Facilities Loans
Loans Receivable	$ 12,486,421	$ 17,459,659	$ 646,408
Interest Receivable	191,033	2,159,047	11,306
Gross Program Receivables	$ 12,677,454	$ 19,618,706	$ 657,714
Less: Allowances	1,151,997	16,395,088	138,667
Net Program Receivables	$ 11,525,457	$ 3,223,618	$ 519,027

	1995		
	Direct Loans	Defaulted Guaranteed Loans	Facilities Loans
Loans Receivable	$ 3,647,074	$ 17,049,007	$ 663,073
Interest Receivable	28,205	2,673,315	11,559
Gross Program Receivables	$ 3,675,279	$ 19,722,322	$ 694,562
Less: Allowances	535,386	16,519,294	161,496
Net Program Receivables	$ 3,139,893	$ 3,203,028	$ 533,066

B. Liabilities for Loan Guarantees

Outstanding loan guarantees were approximately $92 billion at September 30, 1996 and $93 billion at September 30, 1995. These loans were made by about 7,000 lenders and guaranteed by 36 guaranty agencies, operating in 54 states and territories. ED is contingently liable for guaranteed student loans made by lenders. These liabilities are estimated based on historical data received from guaranty agencies and lenders, and ED's cash flow data. The estimates are significantly affected by Treasury projections of future market interest rates that change the amount of special allowances to compensate lenders for program interest rates below market levels. The estimates are also affected by the types of schools attended (i.e., proprietary, two-year colleges, four-year colleges

and universities, etc.) and the types of loans received (i.e., Stafford, Unsubsidized Stafford, Parents Loans for Undergraduate Students, etc.) by the borrowers. ED's estimates, using an econometric model for 1996 and an actuarial model for 1995, determined that ED's liabilities at September 30, 1996 and September 30, 1995 for loan guarantees were approximately $15.0 billion and $12.9 billion, respectively, as detailed below.

Liabilities for loan guarantees at September 30 were (in thousands):

	1996		
	Pre-1992	Post-1991	Total
Covered by Budgetary Resources	$ 577,968	$ 12,223,286	$ 12,801,254
Not Covered by Budgetary Resources	1,617,950	599,161	2,217,111
Total Loan Guarantee Liabilities	$ 2,195,918	$ 12,822,447	$ 15,018,365

	1995		
	Pre-1992	Post-1991	Total
Covered by Budgetary Resources	$ 3,492,046	$ 8,368,378	$ 11,860,424
Not Covered by Budgetary Resources	1,056,039	—	1,056,039
Total Loan Guarantee Liabilities	$ 4,536,085	$ 8,368,378	$ 12,906,463

C. Subsidy Expenses

For fiscal years ended September 30, loan guarantee subsidy expenses were (in thousands):

	1996	1995
Provision for Loan Defaults (Net)	$ 2,005,560	$ 1,246,732
Provision for Interest Subsidies	1,305,700	2,709,731
Fees	(436,400)	(506,471)
Mandatory Administrative Expense	62,650	98,256
Total Current Year Estimate	2,937,510	3,547,248
Total Reestimates	1,746,706	(895,240)
Total Loan Guarantee Subsidy Expense	$ 4,564,916	$ 2,651,008

For fiscal years ended September 30, Direct loan subsidy expenses were (in thousands):

	1996	1995
Loan Defaults (Net)	$ 691,829	$ 291,031
Interest Subsidies	(149,664)	206,746
Fees	(309,052)	(116,419)
Other Subsidy	133,669	43,161
Total Current Year Estimate	366,782	424,519
Add: Total Reestimates	127,206	11,613
Total Direct Student Loan Subsidy Expense	493,988	436,132
Other	1,201	—
Total Direct Loan Subsidy Expense	$ 495,189	$ 436,132

Note 5—Guaranty Agency Advances

Advances to guaranty agencies represent amounts provided under sections 422(a) and 422(c) of the HEA for commencement of agency operations and making loan default payments to lenders.

Advances to guaranty agencies at September 30 were (in thousands):

	1996	1995
Advances to Guaranty Agencies	$ 39,309	$ 40,164
Less: Allowance for Uncollectible Receivables	393	401
Advances to Guaranty Agencies, Net	$ 38,916	$ 39,763

Note 6—Accounts Receivable

A. Entity

Entity receivables include delinquent and defaulted accounts receivable from credit and other programs that have been assigned to the Department for collection. The Other category, below, includes receivable amounts for about $2.7 million of overpaid Impact Aid awaiting offset and $3.8 million of accrued Pell interest. The Other category also includes receivables related to travel, salary overpayments and other administrative items.

Entity receivables at September 30 are summarized as follows (in thousands):

	1996		
	FFEL	All Other	Total
Gross Accounts Receivable	$ 4,248	$ 19,355	$ 23,603
Less: Allowance for Uncollectible Receivables	1,271	5,056	6,327
Accounts Receivable, Net	$ 2,977	$ 14,299	$ 17,276

	1995		
	FFEL	All Other	Total
Gross Accounts Receivable	$ 5,011	$ 21,632	$ 26,643
Less: Allowance for Uncollectible Receivables	1,503	13,371	14,874
Accounts Receivable, Net	$ 3,508	$ 8,261	$ 11,769

B. Non-Entity

Non-entity receivables consist of promissory notes and related interest receivables, other program receivables, audit receivables, reimbursables and recipient excess cash receivables. These receivables are partially offset by an allowance derived from prior collection experience.

Non-entity receivables at September 30 were as follows (in thousands):

	1996	1995
Gross Accounts Receivable	$ 35,823	$ 47,117
Less: Allowance for Uncollectible Receivables	10,747	14,135
Net Accounts Receivable	$ 25,076	$ 32,982

Note 7—Guaranty Agency Reserves Receivable

Guaranty Agency Reserves Receivable (amounts in thousands):

	1996	1995
Reserve Funds at September 30	$ 2,686,258	$ 2,365,886
Less: Allowance for Uncollectibles	268,626	236,589
Reserve Funds Receivable, Net	$ 2,417,632	$ 2,129,297

Note 8—Borrowing From U.S. Treasury

Borrowing from U.S. Treasury consists of funded and unfunded borrowings. Borrowings at September 30, 1996 were (in thousands) $12,718,549 for funded and $814,457 for unfunded. The unfunded borrowings consists of $680,222 for the Emergency Unemployment Compensation Act of 1991 and $134,235 for the Direct Loan Program.

A. The Emergency Unemployment Compensation Act

On September 30, 1992, the FFEL Program borrowed $2.09 billion from the U.S. Treasury in accordance with OMB instructions under the CRA on accounting for noncontractual modifications made to its loan guarantees. The noncontractual modifications were:

- The Emergency Unemployment Compensation Act of 1991 authorized ED to continue collecting on defaulted loans through the Internal Revenue Service (offsetting income tax refunds); such authority had been due to expire in fiscal year 1994. The Act also authorized the use of wage garnishment as a collection tool for defaulted loans.
- The HEA Amendments of 1992 eliminated the statute of limitations on collection activities for certain student loans.

The FFEL Program will repay the borrowing, at an annual interest rate of 7.37 percent, with increased collections on defaulted loans resulting from the noncontractual modifications.

During fiscal year ended September 30, the FFEL Program used collections to reduce this Treasury debt as follows (in thousands):

	1996	1995
Beginning Balance Borrowing from U.S. Treasury	$ 1,134,178	$ 1,605,315
Payments to Treasury during Fiscal Year	(453,956)	(471,137)
Ending Balance Borrowing from U.S. Treasury	$ 680,222	$ 1,134,178

The aggregate maturities of this debt, based on estimated collections on defaulted loans, for the years subsequent to September 30, 1996, are as follows (in thousands):

1997	$ 326,149
1998	237,302
1999	116,771
Total	$ 680,222

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B. Borrowing for Credit Programs, Repayments and Write-offs

Funded borrowings, repayments and write-offs at September 30 were as follows (in thousands):

	1996		
	Direct Loans	All Other	Total
Borrowings from U.S. Treasury, Balance 9/30/95	$ 5,066,722	$ 543,617	$ 5,610,339
New Borrowings During Fiscal Year 1996	7,822,923	24	7,822,947
Repayments	(669,159)	(45,578)	(714,737)
Borrowings from U.S. Treasury, Balance 9/30/96	$ 12,220,486	$ 498,063	$ 12,718,549

	1995		
	Direct Loans	All Other	Total
Borrowings from U.S. Treasury, Balance 9/30/94	$ 433,207	$ 573,051	$ 1,006,258
New Borrowings During Fiscal Year 1995	4,868,340	24,156	4,892,496
Repayments	(234,825)	(53,357)	(288,182)
Write-offs	—	(233)	(233)
Borrowings from U.S. Treasury, Balance 9/30/95	$ 5,066,722	$ 543,617	$ 5,610,339

C. Interest Revenues and Expense

Interest expense, federal, comprises the interest accrued on borrowings from the Treasury and interest expense recognized to offset interest earned on uninvested funds. The Other category for fiscal year 1996 includes Prompt Payment Act interest expense incurred during the Government shutdown.

Interest revenues and expense during fiscal years ended September 30 are summarized as follows (in thousands):

	1996			
	Direct Loans	FFEL	All Other	Total
Interest Revenues, Federal	$ 401,744	$ 513,746	$ 509	$ 915,999
Interest Expense:				
Emergency Unemployment Compensation Act	$ —	$ 83,589	$ —	$ 83,589
Subsidy	—	513,746	—	513,746
Borrowings for Credit Programs	884,179	—	34,387	918,566
Total Interest on Loan Programs	884,179	597,335	34,387	1,515,901
Other	27	23	199	249
Total Interest Expense	$ 884,206	$ 597,358	$ 34,586	$1,516,150

	1995			
	Direct Loans	FFEL	All Other	Total
Interest Revenues, Federal	$ 340,120	$ 506,747	$ 977	$ 847,844
Interest Expense				
Emergency Unemployment Compensation Act	$ —	$ 118,314	$ —	$ 118,314
Subsidy	—	506,747	1,626	508,373
Borrowings for Credit Programs	383,177	—	26,423	409,600
Total Interest on Loan Programs	383,177	625,061	28,049	1,036,287
Other	—	—	45	45
Total Interest Expense	$ 383,177	$ 625,061	$ 28,094	$ 1,036,332

Note 9—Salaries and Administrative Expenses

Salaries and administrative expenses by object classification during year ended at September 30 (in thousands):

	1996	1995
Salaries and benefits	$ 306,353	$ 299,148
Travel and transportation	9,366	11,916
Rent, communications and utilities	93,884	53,413
Printing and reproduction	21,123	15,717
Materials, supplies and equipment	21,769	21,738
Total salaries and expenses	$ 452,495	$ 401,932

Note 10—Commitments and Contingencies

Possible Financial Difficulties of Guaranty Agencies

Education has assisted some guaranty agencies experiencing financial difficulties from time to time through advancement of funds and other means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of guaranty agencies because the likelihood of such liabilities occurring is uncertain and cannot be estimated with sufficient reliability.

Perkins Loans Reserve Funds

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students based on financial need. ED provides funds to participating schools to provide about 89 percent of the capital used to make loans to eligible students at 5 percent interest. The other 11 percent of program funding is provided by the institution. For the latest academic year (ended June 30, 1996) there were

about 687,000 loans made, totaling about $1,029 million at about 2,381 schools, averaging $1,498 per loan. For the academic year ended June 30, 1995, there were about 664,000 loans made, totaling about $972 million at 2,279 schools averaging $1,464 per loan.

The funding ratio had been 90/10 from the inception of the program through June 30, 1993. Then, for the academic years ended June 30, 1994 and 1995, the ratio for capital contributions was reduced to 85/15 and 75/25, respectively. The funding ratio for the academic year ended June 30, 1996 was also 75/25. The program operates at each school like a revolving fund with loan repayment amounts available to loan to other eligible students. The schools are accountable to the Department for the federal share of their Perkins Loan funds whether held by the school or loaned to participating students. At June 30, 1996 and 1995, the Department's share of the Perkins Loan Program was about $5.7 billion and $5.8 billion, respectively. However, these funds are not reported in the principal statements of the Department because the extent to which they may be recoverable is not known.

Claims-in-Process

In addition to the reported non-entity receivables (see Note 6), about $1.69 and $1.06 billion of non-credit program claims, for which collection probabilities have not yet been established, are being actively pursued at September 30, 1996 and 1995, respectively as claims-in-process. The estimated net realizable value of claims-in-process at September 30, 1996 and 1995, is about $46 and $29 million, respectively. However, much of these amounts consist of claims in various stages in the legal process and the ultimate value cannot currently be determined with reasonable certainty. Therefore, ED will not recognize these amounts in its financial statements until they are received or assured.

Borrower Class Actions

Education is involved in pending litigation challenging the enforceability of FFEL Program loans made to students who attended various trade schools that have closed. In most instances, a large percentage of the loans in question are in default and have been acquired by guaranty agencies and reimbursed by Education. Thus, Education has already incurred losses from payment of defaults. No provision has been made in the principal statements for any potential reductions in estimated future collections related to the outcome of these suits, since Education's potential loss exposure is uncertain and cannot be estimated with sufficient reliability.

Revenues Resulting from Inspector General Activities

The fiscal year 1997 appropriation bill (H.R. 3755) is accompanied by an Appropriations Committee report, dated July 8, 1996, which includes a requirement that the Department disclose information on revenues resulting from the activities of its Inspector General. During fiscal year 1996 the Inspector General recommended and the Depart-

ment has sustained certain amounts in the categories of questioned costs, unsupported costs and better use of funds. Questioned costs are audit findings indicating that federal funds were misspent by recipients and should be repaid to the Department. Unsupported costs are audit findings that expenditures of federal funds are not supported by documentation required to be maintained by program recipients. Better use of funds are findings that eliminating certain activities and replacing them with others having stronger impact on the Department's mission could improve overall operating efficiency.

For questioned costs and unsupported costs, any amounts recovered through due administrative process are generally credited to miscellaneous receipts and therefore become revenues of the federal government as a whole, rather than of the Department. For better use of funds the recommended operational changes, generally related to internal departmental activities, could result in increased efficiency if implemented and if the conditions found at the time of the Inspector General's recommendation remain unchanged throughout the period of implementation. However, such increased efficiency, when achieved, is not susceptible to quantification with enough precision to be considered as additional budgetary resources. Amounts identified by the Inspector General and sustained within the Department's Office of the Chief Financial Officer (OCFO), Office of Educational Research and Improvement (OERI), Office of Elementary and Secondary Education (OESE), Office of Postsecondary Education (OPE), Office of Special Education and Rehabilitative Services (OSERS) and Office of Vocational and Adult Education (OVAE) are summarized for the year ended September 30, 1996 as follows:

Information on Inspector General Activity Revenue to the Federal Government (in thousands):

Principal Office	Questioned Costs	Unsupported Costs	Better Use of Funds
OCFO	$ 82	$ 7	$ 0
OERI	0	0	0
OESE	43	3	0
OPE	55,787	3,664	4,772
OSERS	555	105	2,200
OVAE	346	0	0
Total	$ 56,813	$ 3,779	$ 6,972

Other Matters

ED is involved in various other claims and legal actions related to its programs, arising in the ordinary course of business. In addition, some portion of current year financial assistance expenses may be found to have funded recipient expenditures which were subsequently disallowed through program review or audit processes. In the opinion of

management, the ultimate disposition of these matters will not have a material effect on the principal statements of the Department.

Note 11—Subsequent Events

College Construction Loan Insurance Association (Connie Lee)

In accordance with the Student Loan Marketing Association Reorganization Act of 1996, the Department has sold on February 27, 1997 its 1,914.8 shares of Connie Lee stock, with a face value of $19,148,000 with the assistance of the Department of the Treasury. The stock was sold to Connie Lee at a price of $18,382,080 as determined by an independent appraisal. Therefore, there was a loss of $765,920. The proceeds of the sale, less the reasonable selling cost, will be paid to the District of Columbia Financial Responsibility and Management Assistance Authority to finance public elementary and secondary school facility construction and repair in the District of Columbia. Connie Lee will receive an amended corporate charter requiring use of a new corporate name and a complete dissociation from the federal government.

Student Loan Marketing Association (Sallie Mae)

In accordance with the Student Loan Marketing Association Reorganization Act of 1996, the Sallie Mae Board of Directors will carry out a series of reorganization actions that may include creation of a holding company and one or more subsidiary companies and will ultimately result in the dissolution of Sallie Mae by July 1, 2013 and its replacement by a fully private corporation. In the process of conducting these reorganization actions, any proceeds from the exercise of stock warrants and the sale of the right to use the name Sallie Mae as a trademark or service mark will be used to finance public elementary and secondary school facility construction and repair, or to carry out the District of Columbia School Reform Act of 1995.

New Capital Financing Program

ED is establishing a Historically Black Colleges and Universities (HBCU) Capital Financing Program to facilitate construction and renovation of educational facilities by HBCUs. ED serves as guarantor for timely payment of principal and interest on bonds to be issued by a designated bonding authority, a private sector entity appointed by the Secretary. Bonds will be purchased by either private investors or the Federal Financing Bank. Proceeds of the bonds will be used for facilities loans to individual HBCUs. Each participating institution is obligated to deposit 10% of its loan proceeds into a common escrow fund that will be available for bond payments in the event of default by any participating institution. ED is contingently liable for repayment of bonds issued under this program. One loan for $3,500,000 was made as of September 30, 1996.

UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Financial Position (Unaudited)

September 30, 1998

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
ASSETS				
Entity Assets				
Intragovernmental Assets:				
Fund Balances with U. S. Treasury	$ 842,317	$ 9,592,592	$ 26,582,572	$ 37,017,481
Governmental Assets:				
Credit Program Receivable, Net:				
Direct Loans	11,525,457	—	—	11,525,457
Defaulted Guaranteed Loans	—	3,223,618	—	3,223,618
Facilities Loans	—	—	519,027	519,027
Advances to Guaranty Agencies, Net	—	38,916	—	38,916
Accounts Receivable, Net	—	2,977	14,299	17,276
Investments	—	—	19,148	19,148
Total Entity Assets	12,367,774	12,858,103	27,135,046	52,360,923
Non-Entity Assets				
Governmental Assets				
Guaranty Agencies'				
Reserve Receivable, Net	—	2,417,632	—	2,417,632
Accounts Receivables, Net	—	—	25,076	25,076
Total Non-Entity Assets	—	2,417,632	25,076	2,442,708
Total Assets	$ 12,367,774	$ 15,275,735	$ 27,160,122	$ 54,803,631

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UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Financial Position (Unaudited)

September 30, 1998

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
LIABILITIES AND NET POSITION				
Liabilities				
Liabilities Covered by Budgetary Resources				
Intragovernmental Liabilities:				
Borrowing from U. S. Treasury	$ 12,229,406	$ —	$ 490,063	$ 12,719,549
Interest Payable to U. S. Treasury	—	—	21,490	21,490
Governmental Liabilities:				
Estimated Liabilities for Loan Guarantees	—	12,801,254	—	12,801,254
Guaranty Agencies' Reserves—				
Due to Treasury	—	2,417,632	—	2,417,632
Accrued Grant Liability	—	—	329,756	329,756
Accrued Contractual Services Liability	12,741	13,263	64,063	90,067
Accrued Salaries and Benefits	1,423	1,109	13,084	15,567
Other Accrued Liabilities	24,864	2,153	42,051	69,068
Total Liabilities Covered by Budgetary Resources	12,269,432	15,235,347	959,496	28,444,775
Liabilities Not Covered by Budgetary Resources				
Intragovernmental Liabilities:				
Borrowing from U. S. Treasury	134,235	680,222	—	814,457
Governmental Liabilities:				
Estimated Liabilities for Loan Guarantees	—	3,217,111	—	3,217,111
Accrued Salaries and Benefits	2,007	1,362	18,520	21,909
Accrued Workers Compensation Liability	900	708	7,999	9,607
Total Liabilities Not Covered by Budgetary Resources	137,222	3,899,293	26,519	4,063,034
Total Liabilities	12,406,654	19,134,640	986,015	32,507,299
Net Position				
Unexpended Appropriations	99,342	1,472	26,163,339	26,263,153
Invested Capital	—	38,916	56,963	95,879
Future Funding Requirements	(137,222)	(3,899,293)	(26,519)	(4,063,034)
Donations	—	—	524	524
Total Net Position	(38,880)	(3,858,905)	26,194,107	22,296,322
Total Liabilities and Net Position	$ 12,367,774	$ 15,275,735	$ 27,180,122	$ 54,803,631

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UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Operations and Changes in Net Position
(Unaudited)

For the Year Ended September 30, [illegible]

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
REVENUES AND EXPENSES				
Revenues				
Interest, Non-Federal	[illegible]	[illegible]	[illegible]	[illegible]
Interest, Federal	[illegible]	[illegible]	[illegible]	[illegible]
Other Revenue	[illegible]	[illegible]	[illegible]	[illegible]
Total Revenues	[illegible]	[illegible]	[illegible]	[illegible]
Expenses				
Direct Loan Subsidy Expense	[illegible]	[illegible]	[illegible]	[illegible]
Guaranteed Loan Subsidy Expense	[illegible]	[illegible]	[illegible]	[illegible]
Elementary and Secondary Education Grants	[illegible]	[illegible]	[illegible]	[illegible]
Postsecondary Education Grants	[illegible]	[illegible]	[illegible]	[illegible]
Special Education and Rehabilitative Services Grants	[illegible]	[illegible]	[illegible]	[illegible]
Other Grants	[illegible]	[illegible]	[illegible]	[illegible]
Interest Expense	[illegible]	[illegible]	[illegible]	[illegible]
Salaries and Administrative Expenses	[illegible]	[illegible]	[illegible]	[illegible]
Contractual Program Expenses	[illegible]	[illegible]	[illegible]	[illegible]
Bad Debt and Write-offs	[illegible]	[illegible]	[illegible]	[illegible]
Total Expenses	[illegible]	[illegible]	[illegible]	[illegible]
Net Operating Activity	[illegible]	[illegible]	[illegible]	[illegible]
FFELP mandatory administrative expense funded by Direct Loan appropriation	[illegible]	[illegible]	[illegible]	[illegible]
Operating Activity funded by appropriations	[illegible]	[illegible]	[illegible]	[illegible]
CHANGES IN NET POSITION				
Net Position, Beginning of Year	[illegible]	[illegible]	[illegible]	[illegible]
Net Operating Activity	[illegible]	[illegible]	[illegible]	[illegible]
Plus (Minus) Non-Operating Changes				
Appropriated Funds Received	[illegible]	[illegible]	[illegible]	[illegible]
Appropriated Funds Returned	[illegible]	[illegible]	[illegible]	[illegible]
Appropriations Transferred From (To) Others	[illegible]	[illegible]	[illegible]	[illegible]
Net Position, End of Year	[illegible]	[illegible]	[illegible]	[illegible]

UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Cash Flows (Unaudited)

For the Year Ended September 30, 1998

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Cash Provided				
Defaulted Loans Collected	$ —	$2,446,123	$ —	$ 2,446,123
Loan Origination and Other Fees	517,759	486,123	23	1,003,905
Interest, Federal	891,784	713,746	508	605,888
Interest and Penalty, Non-Federal	114,749	123	24,456	139,328
Other Operating Cash Provided	—	2,879	2,859	5,738
Total Operating Cash Provided	634,292	3,652,871	59,826	4,346,330
Operating Cash Used				
Interest and Penalties, Non-Federal	(77)	(73)	(25)	(175)
Interest, Federal	(866,179)	(45,564)	(25,123)	(465,875)
Defaulted Loan Payments	—	(2,787,767)	—	(2,787,767)
Interest Subsidy Payments	—	(3,877,813)	—	(3,877,813)
Mandatory Administrative Expenses	(166,868)	(45,881)	—	(206,869)
Grant Award Payments	—	—	(32,772,447)	(32,772,447)
Salaries and Benefits	(26,616)	(29,637)	(256,442)	(304,737)
Rent, Communications, and Utilities	(22,881)	(4,155)	(45,772)	(72,178)
Contractual Program Services	(154,788)	(136,147)	(581,155)	(872,284)
Printing and Reproduction	(6,887)	(2,771)	(11,747)	(21,875)
Travel and Transportation	(1,858)	(1,877)	(7,287)	(11,022)
Materials, Supplies, and Equipment	(3,127)	(1,386)	(17,854)	(22,367)
Guarantee Agency Collection Fees	—	(338,816)	—	(338,816)
Purchase of Obligations Services	(10,567)	—	—	(10,567)
Total Operating Cash Used	(1,262,971)	(6,465,981)	(33,856,847)	(41,585,799)
Net Operating Cash Used by Operating Activities	(628,679)	(2,813,110)	(33,457,791)	(36,439,469)

[illegible] DEPARTMENT OF EDUCATION

Consolidating Statement of Cash Flows

For the Year Ended September 30, [illegible]

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES				
Collection of Loans Receivable	[illegible]	—	[illegible]	[illegible]
Loan Disbursements	[illegible]	—	[illegible]	[illegible]
Net Cash Provided (Used) by Operating Activities	[illegible]	—	[illegible]	[illegible]
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES				
Appropriated Funds Received	[illegible]	[illegible]	[illegible]	[illegible]
Appropriations Transferred Out (Uncollected)	—	—	[illegible]	[illegible]
Appropriated Funds Borrowed	[illegible]	[illegible]	[illegible]	[illegible]
Net Appropriations	[illegible]	[illegible]	[illegible]	[illegible]
Repayments to U.S. Treasury For Borrowings	[illegible]	[illegible]	[illegible]	[illegible]
Borrowing from U.S. Treasury	[illegible]	—	[illegible]	[illegible]
Net Cash Provided by Financing Activities	[illegible]	[illegible]	[illegible]	[illegible]
Net Cash Provided by Operating, Investing and Financing Activities	[illegible]	[illegible]	[illegible]	[illegible]
Fund Balance with U. S. Treasury:				
Beginning of Year	[illegible]	[illegible]	[illegible]	[illegible]
Fund Balance with U. S. Treasury, End of Year	[illegible]	[illegible]	[illegible]	[illegible]

[redacted]

Consolidating Statement of Cash Flows

[redacted]

	[redacted]	[redacted]		[redacted]
	[redacted]	[redacted]		[redacted]
	[redacted]	[redacted]	[redacted]	[redacted]
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UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Financial Position (Unaudited)

September 30, 1995

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
ASSETS				
Entity Assets				
Intragovernmental Assets:				
Fund Balances with U.S. Treasury	$ 2,477,208	$ 8,647,575	$ 28,250,469	$ 39,375,252
Governmental Assets:				
Credit Program Receivable, Net:	3,139,881	3,203,028	533,086	6,875,995
Advances to Guaranty Agencies, Net	—	39,763	—	39,763
Accounts Receivable, Net	—	3,508	8,261	11,769
Investments	—	—	19,148	19,148
Total Entity Assets	5,617,089	11,893,874	28,810,964	46,321,927
Non-Entity Assets				
Governmental Assets				
Guaranty Agencies' Reserve Receivable, Net	—	2,129,297	—	2,129,297
Accounts Receivables, Net	—	—	32,982	32,982
Total Non Entity Assets	—	2,129,297	32,982	2,162,279
Total Assets	$ 5,617,089	$ 14,023,171	$ 28,843,946	$ 48,484,206
LIABILITIES AND NET POSITION				
Liabilities				
Liabilities Covered by Budgetary Resources				
Intragovernmental Liabilities:				
Borrowing from U.S. Treasury	$ 5,066,722	$ —	$ 543,617	$ 5,610,339
Interest Payable to U.S. Treasury	—	—	12,049	12,049
Governmental Liabilities:				
Estimated Liabilities for Loan Guarantees	—	11,850,424	—	11,850,424
Guaranty Agencies' Reserves Due to Treasury	—	2,129,297	—	2,129,297
Accrued Grant Liability	—	—	771,349	771,349
Accrued Contractual Services Liability	15,929	1,772	52,119	69,820
Accrued Salaries and Benefits	893	1,182	11,938	14,013
Other Accrued Liabilities	9,378	733	52,313	62,424
Total Liabilities Covered by Budgetary Resources	5,092,927	13,983,408	1,443,385	20,519,715
Liabilities Not Covered by Budgetary Resources				
Intragovernmental Liabilities:				
Borrowing from U.S. Treasury	—	1,134,178	—	1,134,178
Governmental Liabilities:				
Estimated Liabilities for Loan Guarantees	—	1,056,039	—	1,056,039
Accrued Salaries and Benefits	1,171	1,550	17,477	20,198
Accrued Workers Compensation Liability	132	1,071	9,228	10,431
Total Liabilities Not Covered by Budgetary Resources	1,303	2,192,838	26,705	2,220,846
Total Liabilities	5,094,225	16,176,246	1,470,090	22,740,561
Net Position				
Unexpended Appropriations	524,167	—	27,338,368	27,862,535
Invested Capital	—	39,763	62,032	101,795
Future Funding Requirements	(1,303)	(2,192,838)	(26,705)	(2,220,846)
Donations	—	—	161	161
Total Net Position	522,864	(2,153,075)	27,373,856	25,743,645
Total Liabilities and Net Position	$ 5,617,089	$ 14,023,171	$ 28,843,946	$ 48,484,206

UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Operations and Changes in Net Position

For the Year Ended September 30,1995

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
REVENUES AND EXPENSES				
Revenues				
Interest, Non-Federal	$ 43,049	$ —	$ 39,882	$ 82,931
Interest, Federal	340,120	506,747	977	847,844
Other Revenue	—	—	316	316
Total Revenues	383,169	506,747	41,175	931,091
Expenses				
Direct Loan Subsidy Expense	436,132	—	—	436,132
Guaranteed Loan Subsidy Expense	—	2,651,988	—	2,651,988
Elementary and Secondary Education Grants	—	—	9,324,757	9,324,757
Postsecondary Education Grants	—	—	8,149,761	8,149,761
Special Education and Rehabilitative Services Grants	—	—	5,580,045	5,580,045
Other Grants	—	—	2,035,320	2,035,320
Interest Expense	383,177	625,061	28,094	1,036,332
Salaries and Administrative Expenses	31,058	33,122	337,752	401,932
Contractual Program Expenses	97,657	159,098	410,506	667,261
Bad Debt and Write-offs	—	5,079	(2,160)	2,919
Other Expenses, Net	—	—	559	559
Total Expenses	948,024	3,474,348	25,864,634	30,287,006
Net Operating Activity	(564,855)	(2,967,601)	(25,823,459)	(29,355,915)
FFELP mandatory administrative expense funded by Direct Loan appropriation	(220,728)	220,728	—	—
Operating Activity funded by appropriations	($ 785,583)	($ 2,746,873)	($ 25,823,459)	($ 29,355,915)
CHANGES IN NET POSITION				
Net Position, Beginning of Year	$ 203,226	($ 4,042,534)	$ 26,505,056	$ 22,665,748
Operating Activity funded by appropriations	(785,583)	(2,746,873)	(25,823,459)	(29,355,915)
Plus (Minus) Non-Operating Changes				
Appropriated Funds Received	1,105,221	5,321,855	26,847,558	33,274,634
Appropriated Funds Returned	—	(760,523)	(114,517)	(875,040)
Appropriations, Transferred From (To) Others	—	75,000	(40,782)	34,218
Net Position, End of Year	$ 522,864	($ 2,153,075)	$ 27,373,856	$ 25,743,645

UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Cash Flows

For the Year Ended September 30,1995

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Cash Provided				
Defaulted Loans Collected	$ —	$ 2,013,058	$ —	$ 2,013,058
Loan Origination and Other Fees	81,105	1,065,732	57	1,146,894
Interest, Federal	296,971	506,747	977	804,695
Interest and Penalty, Non-Federal	14,498	165	26,201	40,864
Other Operating Cash Provided	—	3,938	7,301	11,239
Total Operating Cash Provided	392,574	3,589,640	34,536	4,016,750
Operating Cash Used				
Interest and Penalties, Non-Federal	(8)	(2)	(44)	(54)
Interest, Federal	(383,169)	(118,312)	(24,512)	(525,993)
Defaulted Loan Payments	—	(2,521,172)	(1)	(2,521,173)
Interest Subsidy Payments	—	(2,801,143)	—	(2,801,143)
Mandatory Administrative Expenses	(220,728)	(37,134)	—	(257,862)
Grant Award Payments	—	—	(25,014,693)	(25,014,693)
Salaries and Benefits	(19,116)	(25,655)	(263,911)	(308,682)
Rent, Communications, and Utilities	(4,439)	(3,657)	(45,348)	(53,444)
Contractual Program Services	(83,685)	(156,919)	(417,684)	(658,288)
Printing and Reproduction	(3,000)	(635)	(12,083)	(15,718)
Travel and Transportation	(975)	(2,171)	(8,808)	(11,954)
Materials, Supplies, and Equipment	(2,838)	(1,982)	(16,859)	(21,679)
Guaranty Agency Collection Fees	—	(285,376)	—	(285,376)
Payment of Origination Services	(3,750)	—	—	(3,750)
Other Operating Cash Used	—	—	(835)	(835)
Total Operating Cash Used	(721,708)	(5,954,158)	(25,804,778)	(32,480,644)
Net Operating Cash Used by Operating Activities	(329,134)	(2,364,518)	(25,770,242)	(28,463,894)
CASH PROVIDED (USED) BY INVESTING ACTIVITIES				
Collection of Advances	750	—	—	750
Collection of Loans Receivable	29,397	—	44,450	73,847
Loan Disbursements	(3,256,029)	—	(11,911)	(3,267,940)
Net Cash Provided (Used) by Investing Activities	(3,225,882)	—	32,539	(3,193,343)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES				
Appropriated Funds Received	1,105,221	5,321,855	26,847,558	33,274,634
Appropriations Transferred From (To) Others	—	75,088	(40,782)	34,218
Appropriated Funds Returned	—	(760,523)	(114,517)	(875,040)
Net Appropriations	1,105,221	4,636,332	26,692,259	32,433,812
Repayments to U.S. Treasury For Borrowings	(234,825)	(471,137)	(53,357)	(759,319)
Borrowing from U.S. Treasury	4,868,340	—	24,156	4,892,496
Net Cash Provided by Financing Activities	5,738,736	4,165,195	26,663,058	36,566,989
Net Cash Provided by Operating, Investing, and Financing Activities	2,183,720	1,800,677	925,355	4,909,752
Fund Balances with U.S. Treasury, Beginning of Year	293,488	6,846,898	27,325,114	34,465,500
Fund Balances with U.S. Treasury, End of Year	$ 2,477,208	$ 8,647,575	$ 28,250,469	$ 39,375,252

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UNITED STATES DEPARTMENT OF EDUCATION

Consolidating Statement of Cash Flows

For the Year Ended September 30,1995

(Dollars in Thousands)

	Federal Direct Student Loan Program	Federal Family Education Loan Program	All Other Activities	Department of Education Consolidated Balances
RECONCILIATION OF NET OPERATING ACTIVITY BEFORE APPROPRIATIONS TO NET CASH USED BY OPERATING ACTIVITY				
Net Operating Activity	($ 785,583)	($ 2,746,873)	($ 25,823,459)	($ 29,355,915)
Adjustments to Reconcile Net Operating Activity to Net Cash Used by Operating Activities:				
Decrease (Increase) in Credit Program Receivable, Net:				
Direct Loans	457,924	—	—	457,924
Defaulted Guaranteed Loans	—	301,843	—	301,843
Facilities Loans	—	—	(12,998)	(12,998)
Decrease in Advances to Guaranty Agencies, Net	—	1	—	1
Decrease (Increase) in Entity Accounts Receivable, Net	—	(2,214)	(6,194)	(8,408)
Increase in Non-Entity Accounts Receivable, Net	—	—	(32,982)	(32,982)
Increase in Interest Payable to U.S. Treasury	—	—	1,910	1,910
Increase in Estimated Liabilities for Loan Guarantees	—	81,523	6	81,529
Decrease in Accrued Grant Liability	—	—	76,309	76,309
Increase (Decrease) in Accrued Contractual Services Liability	(2,353)	1,772	(5,732)	(6,313)
Increase (Decrease) in Accrued Salaries and Benefits	792	(1,097)	(10,680)	(10,980)
Increase(Decrease)in Other Accrued Liabilities	—	408	42,391	42,799
Increase (Decrease) in Accrued Workers Compensation Liability	86	114	1,179	1,379
Net Adjustments	456,449	382,355	53,217	892,021
Net Cash Used By Operating Activities	($ 329,134)	($ 2,364,518)	($ 25,770,242)	($ 28,463,894)

Accountability Report Evaluation Form

We ask your opinion on whether the financial and program information presented is clear, concise and useful. We solicit your ideas to make the presentations more effective. Please fax or mail to: Department of Education, 600 Independence Ave., SW, Room 4467, Washington, DC 20202. Fax (202) 401-0806. We value your opinion and will try to improve next year's reports based on your response. Thanks for your help.

AGENCY EVALUATED: [X] Department of Education

Please identify yourself by checking appropriate box:

[ ] CFO/Deputy CFO
[ ] OMB/TREASURY/GAO
[ ] IG
[ ] Program Official
[ ] Congressional Staff
[ ] Other _____

Please rate the following on a scale of 1 through 5 by checking appropriate box.

TOTALLY DISAGREE 1 ——— 5 TOTALLY AGREE
NO OPINION X

I. OVERALL IMPRESSION:

1. The report is easy to read.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

2. The report is balanced, presenting both positive and negative results.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

3. The report compares favorably with private sector corporate reports.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

II. PROGRAM PERFORMANCE:

4. The Department's missions and goals are prominently displayed leaving the reader with a view of "where the Department is going."

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

5. The Department's performance information gives the reader a view of "where the Department currently is" in accomplishing its missions and goals.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

6. Management Control Weaknesses (FMFIA) are integrated with the mission performance data.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

7. Audit Follow-ups (IG Act Amendments) are integrated with the mission performance data.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

8. The report leaves you with a feeling of whether the Department is "achieving its mission".

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

9. The Prompt Payment Act, Civil Monetary Penalty and Debt Management Data are integrated well into the report.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

III. GRAPHICS:

10. The graphics are easily understood.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

11. The trends presented graphically are adequately explained in the accompanying narrative.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

IV. FINANCIAL:

12. The report gives you a clear understanding of the financial condition of the Department's appropriations and funds.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

13. Financial Statements and Footnotes are informative and understandable.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

14. The Consolidating/Combining Statements and Supplemental Data section are useful.

1[ ] 2[ ] 3[ ] 4[ ] 5[ ] X[ ]

V. BEST AND WORST FEATURES:

15. Is there anything you especially liked about the report?

16. Is there anything that can be improved upon in future reports?

Please send the Department of Education's audited financial statements and auditor's report for fiscal year 1996 to:

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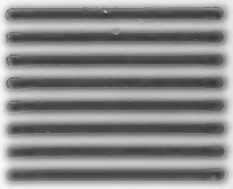

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